

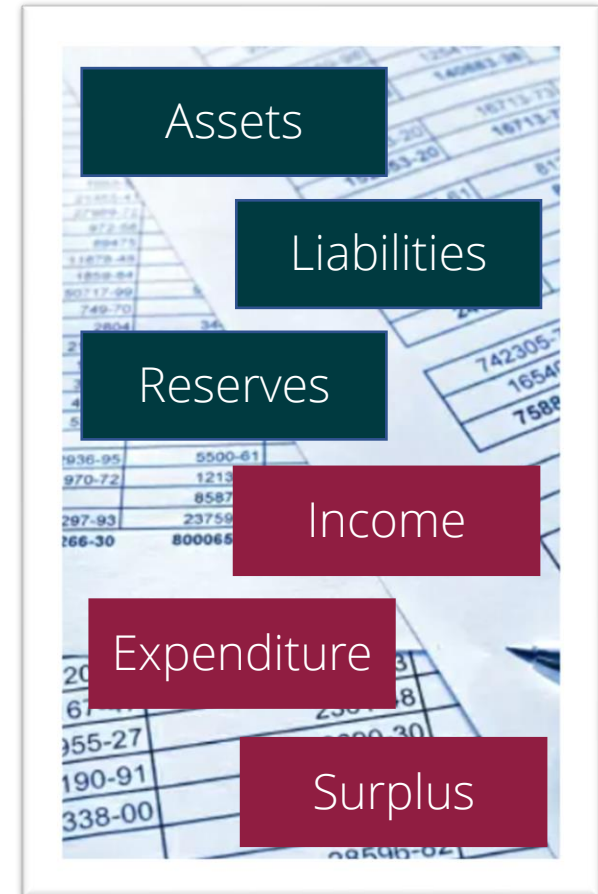


IFR4NPO Project

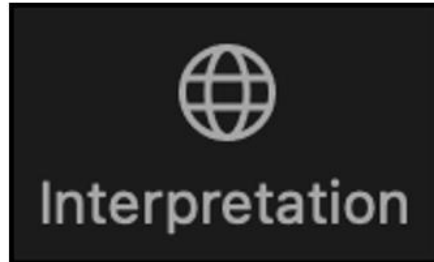
Developing international
financial reporting guidance for
non-profit organisations



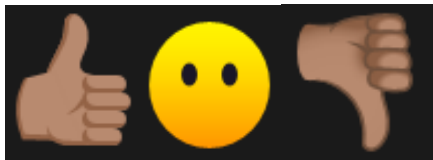
www.ifr4npo.org



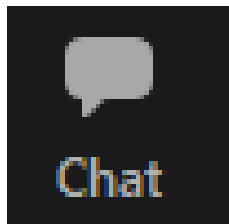
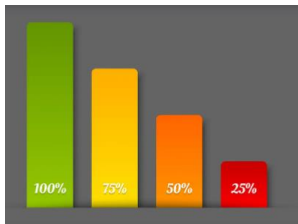
Welcome!



Reactions



Q&A



| Introduction & Background to IFR4NPO Consultation | 10 |
|---|----|
| Who responded? | 5 |
| Responses to Part 1 | 30 |
| Q&A 1 | 15 |
| Responses to Part 2 | 20 |
| Next steps | 10 |
| Q&A 2 | 15 |

Presenters



Samantha Musoke
IFR4NPO Project
Director
Humentum



Karen Sanderson
IFR4NPO Project
Lead
CIPFA



Phillip Trotter
Associate
CIPFA

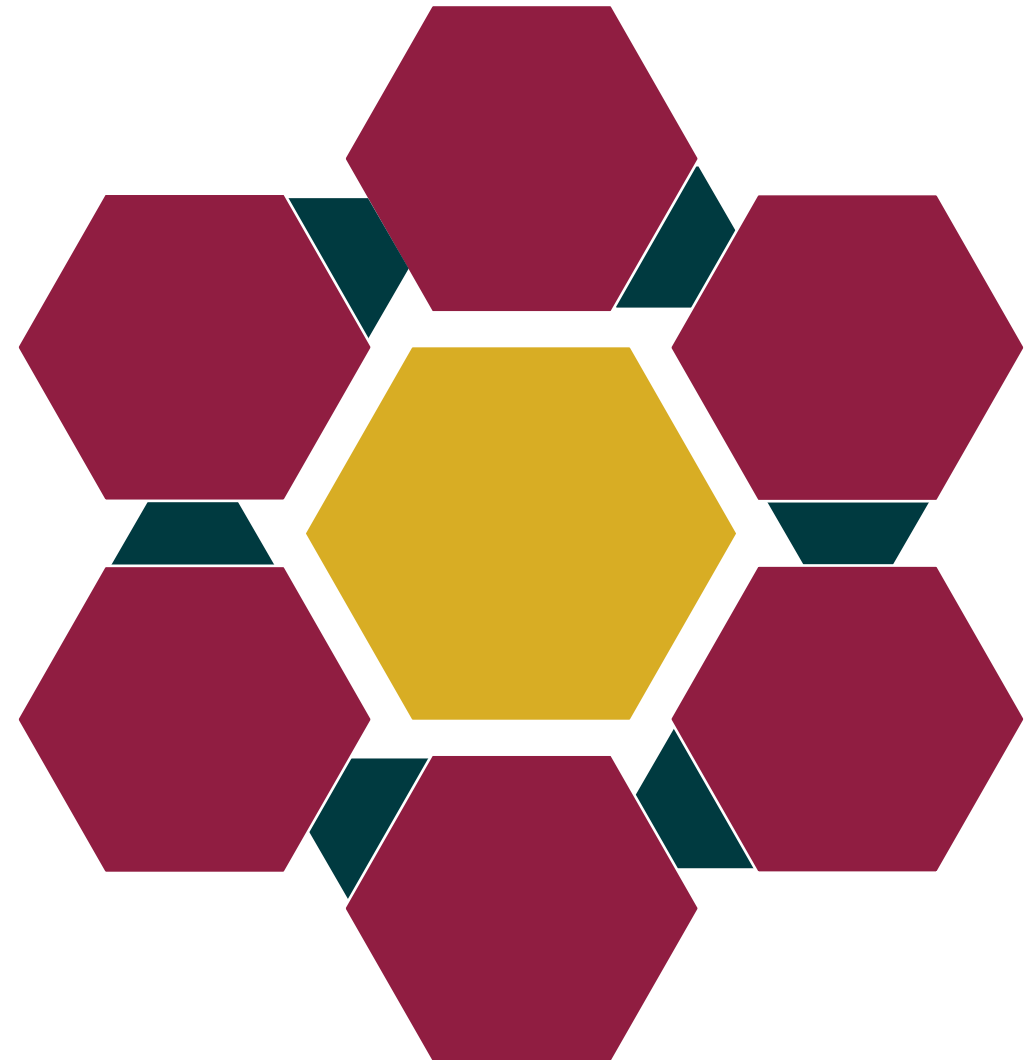


Guidance Objectives

1. To improve the quality, transparency and credibility of NPO financial reports.

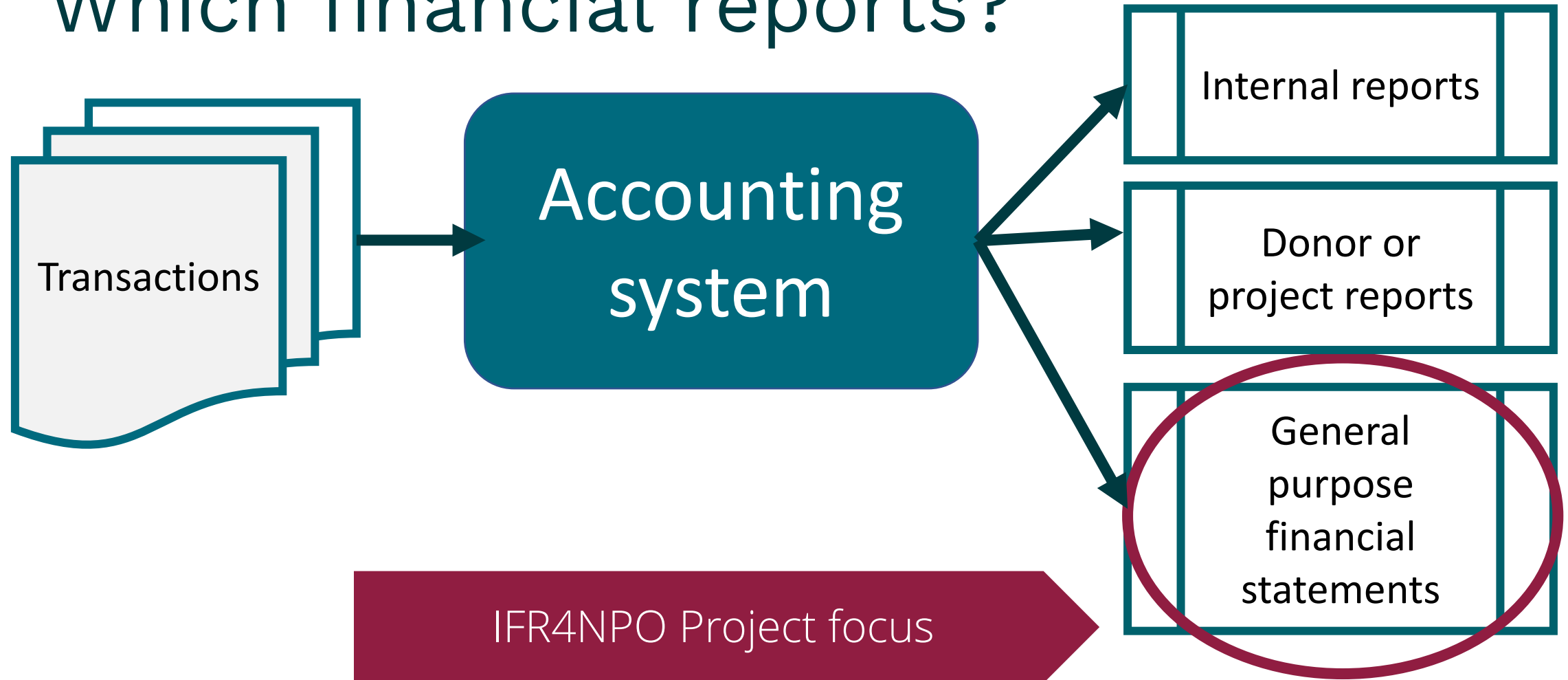
2. To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

3. To address specific NPO issues, which will promote increased comparability of NPO financial reports.





Which financial reports?



IFR4NPO Project Overview

The Guidance is being developed in a three stage process equivalent to all other international accounting standards.



Consultation Process

Consultation Paper development

- Oct 2019 – Dec 2020
- Advisory groups (TAG & PAG)

Consultation Period

- Jan-Oct 2021
- Events and responses

Consultation Feedback

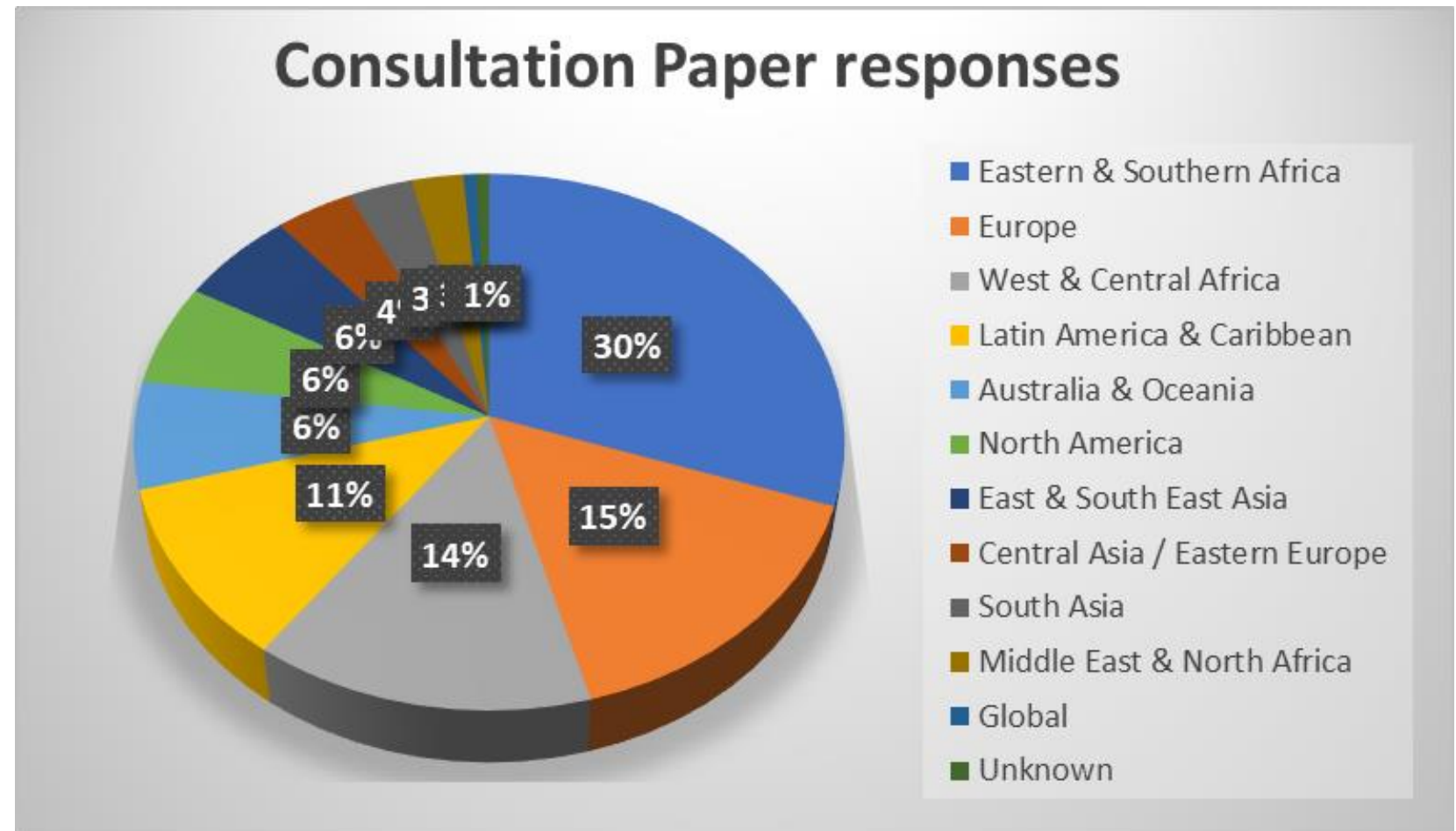
- Aug 2021 – throughout 2022
- Analysis and way forward

Overall engagement and responses

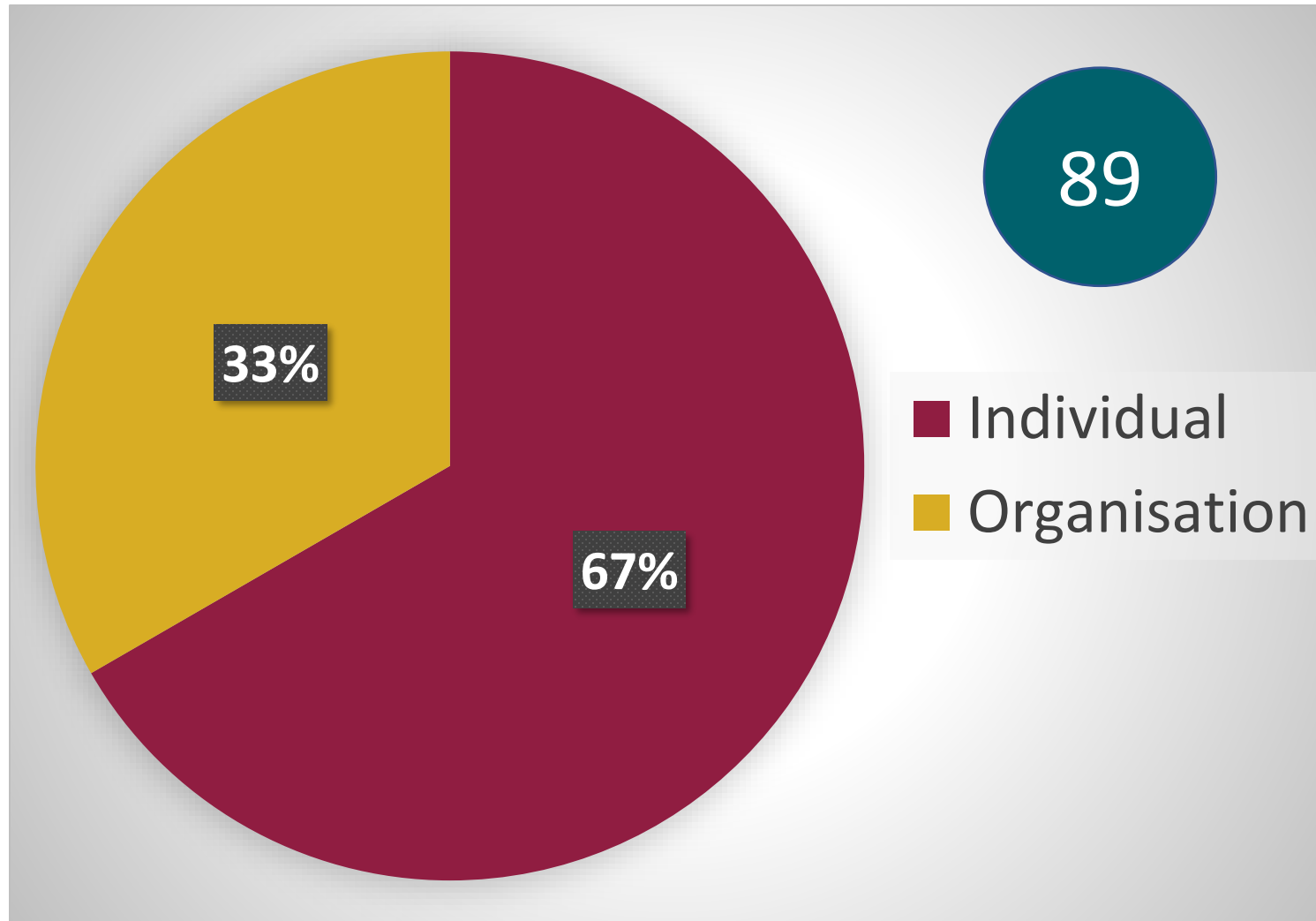
Events: 1000
people from
96 countries



Responses:
208 from 33
countries



Part 1 – Responses by type

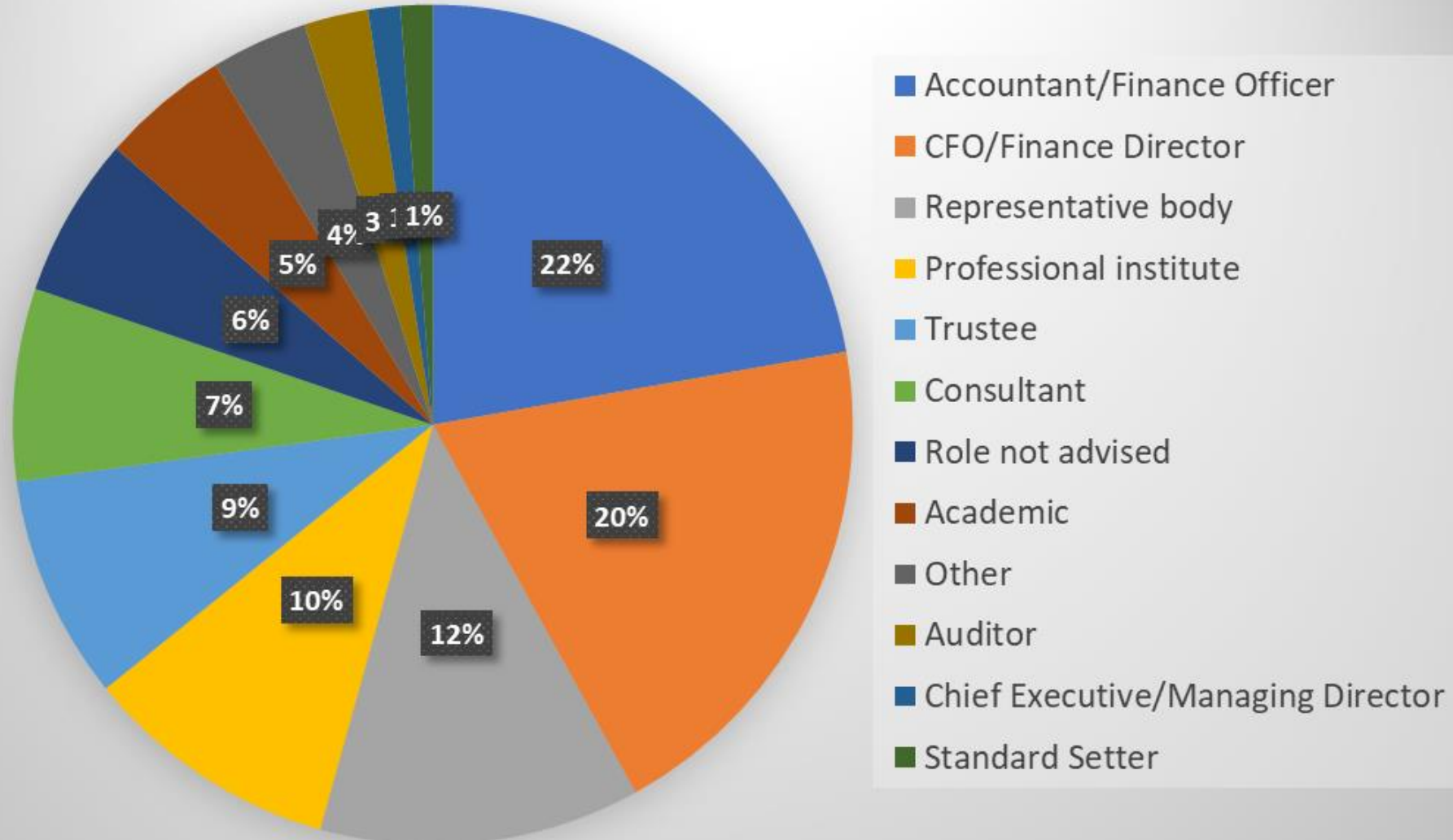


Calling Organisation
Champions!

Role description
here:

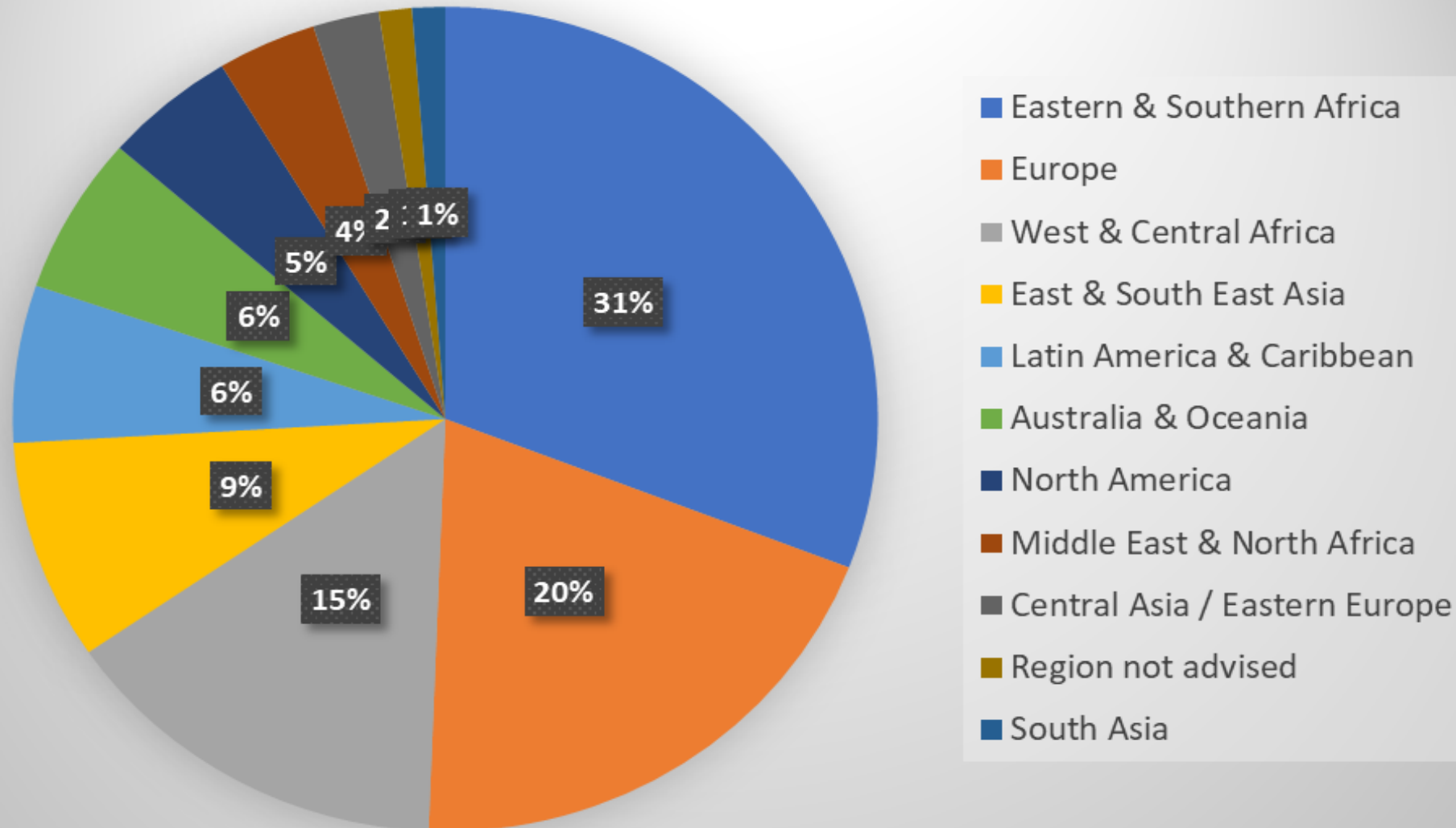
[https://files.humentum.org/
dl/alpFJImvmO](https://files.humentum.org/dl/alpFJImvmO)

Part 1 – Responses by role





Part 1 – Responses by region



Consultation Paper

Part 1 (landscape level)

- Who are NPOs? – Broad characteristics
- Stakeholders - users of NPO financial statements
- Information needs of users
- Accrual-basis Guidance
- Inclusion of narrative non-financial narrative information
- Use of international accounting frameworks
- Bespoke development model, using *IFRS for SME* as a foundation.



We proposed...



We asked...



You said...



We are going to...



Who are Non-Profit Organisations?

Consultation paper approach

- Broad characteristics used to describe the entities that the IFR4NPO Project Guidance is expected to primarily benefit
- Aim is to enable a project focus on proposals that best meet the needs of the organisations with some or all of these characteristics

The broad characteristics

- Deliver services for public benefit and/or
- Direct any profits/surpluses for public benefit and/or
- May have significant voluntary funding and grant income and/or
- Hold and use assets for social purposes



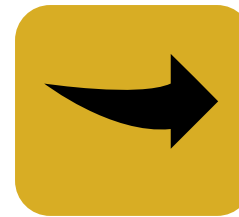
Do you agree with the broad characteristics proposed for describing a non-profit organisation?

Broad characteristics



You said...that using broad characteristics was a good way of describing non-profit organisations.

But there were some concerns about whether some organisations might be inadvertently included or excluded.



We are proposing to... change the broad characteristics.

We will also introduce other indicators to assist in determining if an entity is a non-profit organisation where its not clear if these characteristics have been met.



Broad characteristics - proposals

Required characteristics

- Not controlled by government
- Have the primary objective of providing goods and/or services for public benefit
- Direct profits/surpluses for public benefit

Additional indicators

- Under development
- Could include:
 - voluntary funding and grant income
 - holding and using assets for social purposes
 - Rights to financial returns and transfer of residual net assets on dissolution



NPO Stakeholders

Consultation paper approach

- Examined NPO stakeholders and their accountability and decision-making requirements
- Used to understand what NPO financial information is useful for decision making and accountability

Stakeholders

- NPOs are accountable to service users, resource providers, and regulators and have societal accountability



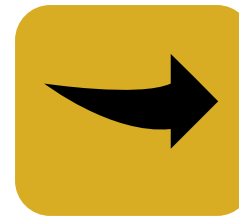
Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability?

NPO stakeholders



You said...in addition to the external stakeholders noted, recognition should also be given to 'internal' stakeholders.

Internal stakeholders such as those charged with governance and volunteers are important in the NPO context



We are proposing to... examine how the needs of 'internal' stakeholders can be reflected while moving towards a specific focus on the objectives on NPO financial reporting and the information needs of users of NPO financial reports



NPO Stakeholders- proposals

Primary users

Primary users of NPO GPFRs are:

- the public to whom the NPO provides goods and services
- resource providers
- and those fulfilling oversight functions on their behalf

who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes.

Other users

NPO GPFRs will also provide information that is useful to other users including:

- internal stakeholders
- donors
- and tax authorities

who may have the authority to require the preparation of financial reports tailored to their own specific information needs.



Information needs of users

Consultation paper approach

- Examined information needs of external stakeholders identified from a broad accountability and decision-making perspective

Information needs

- External stakeholders need to know whether an NPO is:
 - achieving its objectives,
 - maximising economy, efficiency and effectiveness in the use of resources,
 - complying with restrictions and regulations, and
 - maintaining its longer-term financial health.

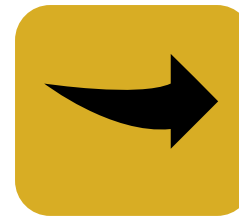


Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness, compliance with restrictions and regulations, and longer-term financial health

Information needs of users



You said...we should focus specifically on the objectives on NPO financial reporting and the information needs of users of NPO financial reports, including looking at how outcomes and areas like risk and sustainability can be reflected in non-financial information reporting



We are proposing to... focus on the objectives on NPO financial reporting and the information needs of users of NPO financial reports as we move to the Exposure Draft stage, including meeting needs through non-financial information reporting.



Accrual-basis Guidance



<https://www.ifr4npo.org/resources/accounting-issues/accounting-basis/>



What, if any, do you see as the main challenges with Guidance that is accrual-based?

Accrual-basis Guidance



- Cash-based reporting was adequate for some organisations.
- Some donors would still want cash-basis reports.
- Some NPOs would not have the resources, capacity or expertise to implement accruals.

Accrual-basis Guidance



- Level of simplicity / complexity proportionate to the needs of preparers and users
- Able to be applied by a wide range of NPOs
- Advice for regulators as they consider applicability in their jurisdictions
- Discussions with the Donor Reference Group
- Greater consistency in requirements will reduce reporting burdens over time



Narrative reporting

Consultation paper approach

- The inclusion of non-financial reporting information was included as a core premise in the development of guidance to meet stakeholder and user needs

Narrative reporting

- Necessary to provide context to financial information and additional information about the organisation's projects, programmes and wider activities in order to meet broader stakeholder information needs



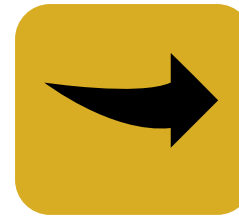
We asked...what, if any, do you see as the main challenges with Guidance that includes non-financial information reporting?

Narrative reporting



You said...that it was important to include non-financial information reporting within the Guidance but there were challenges including:

- Scope given NPO diversity, different international initiatives ongoing in this area, and the need to balance principles with prescription.
- Difficulties that NPOs would have in collecting, verifying and reporting relevant data.
- How to ensure that reporting was fair and balanced.



We are proposing to... ensure that as non-financial information reporting requirements are developed for inclusion within the

Guidance, that they reflect:

- the diversity of the sector
- the capacity and capability of NPOs
- the preference expressed for high-level principles rather than a detailed prescriptive framework.



Use of international frameworks

| | IFRS | IFRS for SMEs | IPSAS |
|------------------------|------|---------------------|-------|
| NPO specific issues | | | |
| Familiarity | | | |
| Feasibility | | | |

IFRS Standards

- Developed to be used primarily by for-profit entities that aims to bring transparency to private sector reporting by enhancing the international comparability and quality of financial information, strengthen accountability, and contribute to economic efficiency.

The *IFRS for SMEs* Standard

- Simplified reporting requirements for for-profit organisations.
- Designed to meet the needs of for-profit entities that are **not** traded on public exchanges or hold financial assets in fiduciary capacity.

IPSAS

- Developed to be used by public sector organisation that aims to enhance the quality and transparency of public sector financial reporting by providing better information for public sector financial management, accountability and decision making.



Do you agree that international frameworks are the best start point for the Guidance?
Do you agree with the criteria? Do you agree with the high-level assessment?



Use of international frameworks

Support

- Frameworks developed through extensive consultation and best practice
- Advantageous to leverage existing frameworks
- Familiarity exists – practitioners/donors
- Educational materials available
- Approach has been successful in the UK

Concerns

- Need to educate some stakeholders
- Familiarity is not universal
- Needs to be proportionate
- Transferability of national NPO guidance
- Need to focus on NPO characteristics and users
- Different needs of non-profits to for-profits



This was a pragmatic response to project resource and time constraints but that an entirely new framework or the use of IPSAS might be preferable.

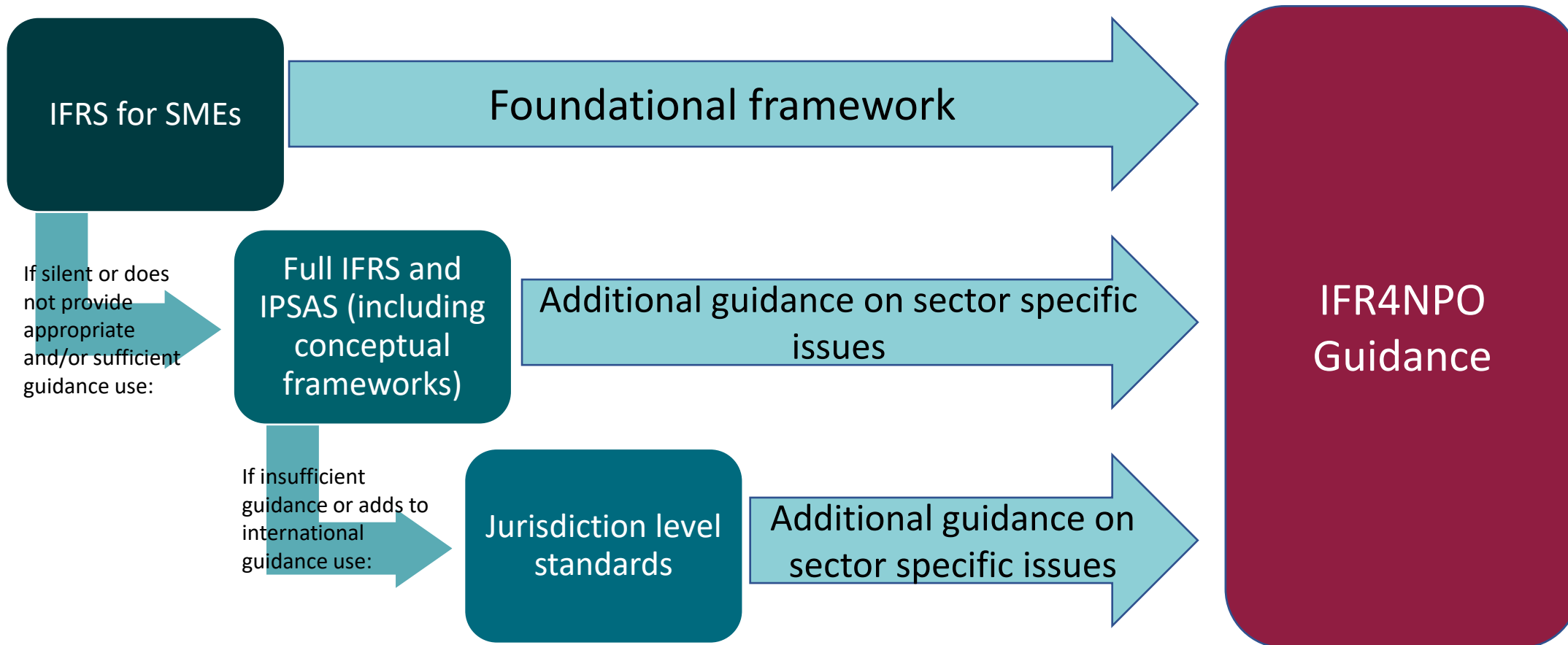


Use of international frameworks

- Develop guidance based on international frameworks
 - To ensure it can be provided as quickly as possible
 - Leverage the consultation and due process of international frameworks
- Use IPSAS where it provides the most appropriate reporting solutions for NPOs



Bespoke model



What do you see as the main challenges, if any, with the proposed Guidance model and the use of IFRS for SMEs as the foundational framework



Bespoke model - challenges

Hybrid model

- how to integrate different principles
- a coherent framework
- risks of undue specialisation vs same tackling NPO-specific issues
- Impact of significant amendments by jurisdictions
- is there a rebuttable assumption that the IFRS for SMEs Standard is used as the base

Using the *IFRS for SMEs* Standard

- The cost of adoption
- The need for education and training.
- The potential complexity of IFRS
- Increase volatility of profit or loss
- Potential for tax implications.
- The framing of public accountability, which may not be compatible with IFRS for SMEs



You had some concerns with the use of a for-profit framework. Additional clarity was needed on how other frameworks would be used and what the Guidance would comprise and cover.



Bespoke model

- Engage further with the sector
 - Webinar to be arranged for later this year
- Work to ensure that with the *IFRS for SMEs* Standard as the foundational framework, we
 - provide a standalone set of Guidance with an NPO appropriate conceptual basis
 - make use of all the frameworks to provide NPO-specific reporting solutions.
- Clarify which organisations we have in mind when developing the guidance



Consultation Paper - Part 1

Thoughts?
Comments?
Questions?

Responses

Exposure
Draft



Part 2: List of NPO-specific topics

Long list (20)

Short list (10)

Criteria

- Prevalence
- Consequence
- Demand
- Feasibility

1. Reporting entity and control
2. NPOs acting on behalf of others
3. Non-exchange revenue
4. Grant expenses
5. Measurement of assets
6. Inventory held for use or distribution
7. Financial statement presentation
8. Classification of expenses
9. Fundraising costs
10. Narrative reporting

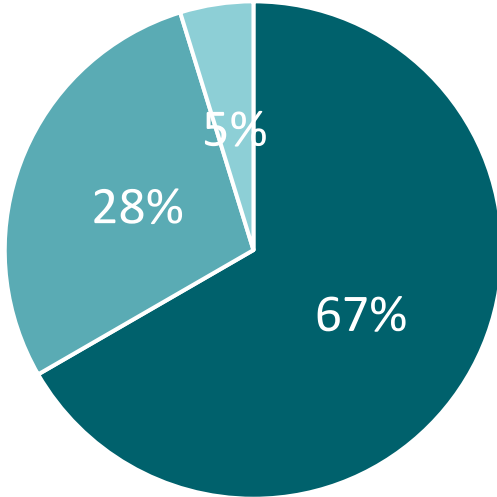


- a) Is the long list complete?
- b) Do you agree with the criteria?
- c) Do you agree with the shortlist?



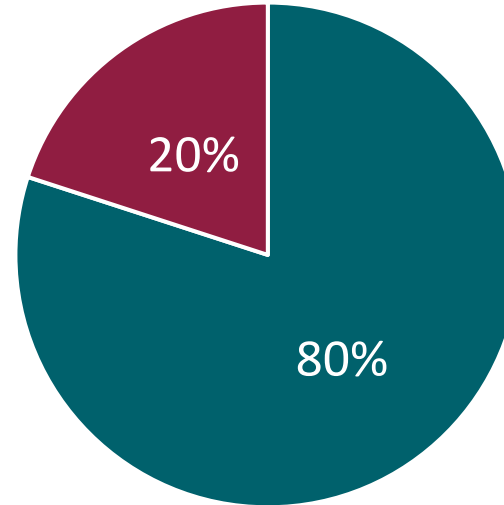
List of NPO-specific topics

Long list complete?



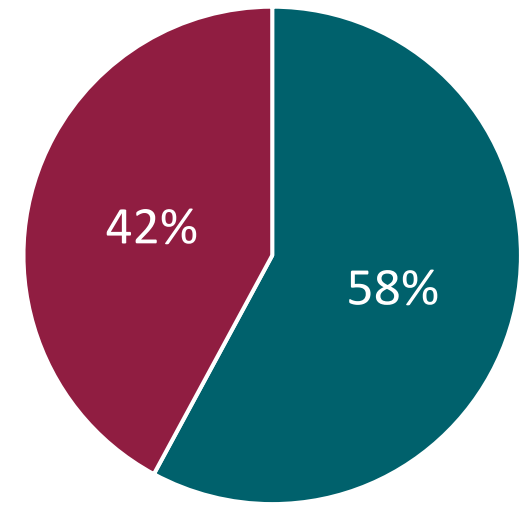
■ Yes ■ No ■ Neither Agree or Disagree

Agree with criteria?

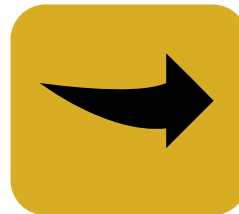


■ Yes ■ No

Agree with shortlist?



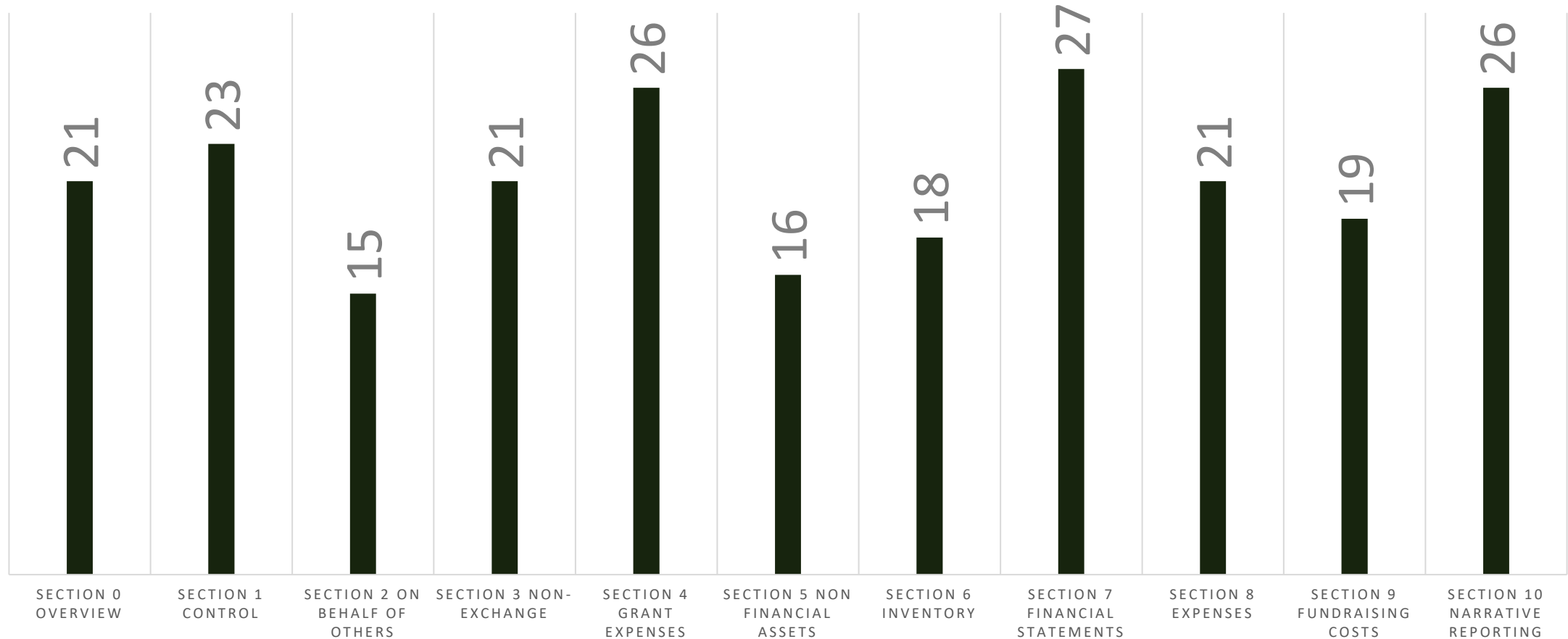
■ Yes ■ No



include **foreign currency transactions** in the short-list



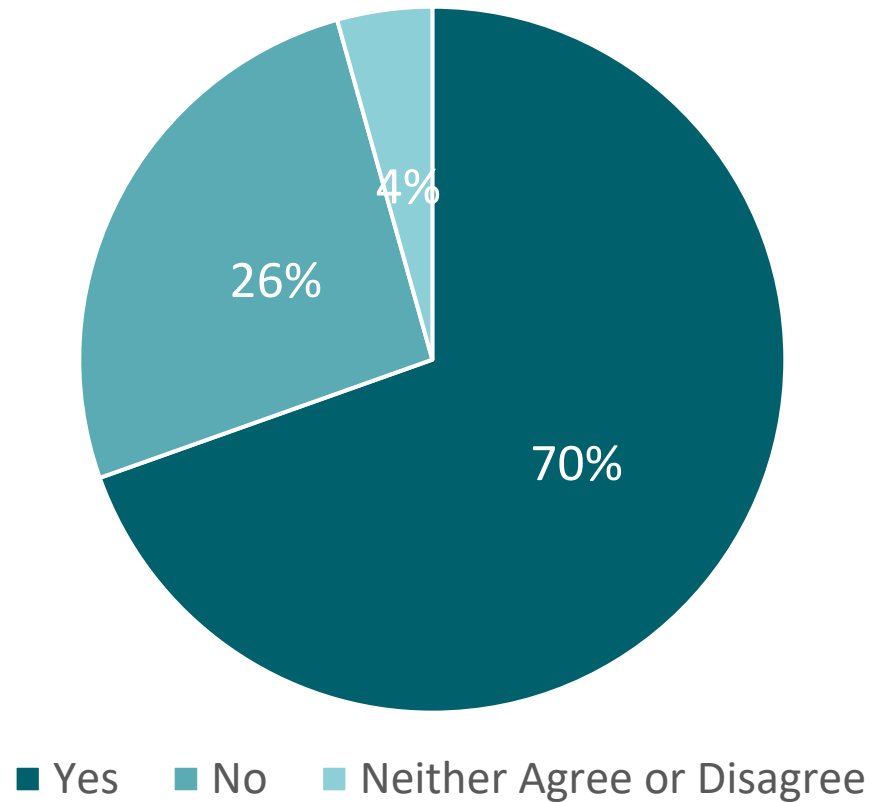
Summary of responses to Part 2



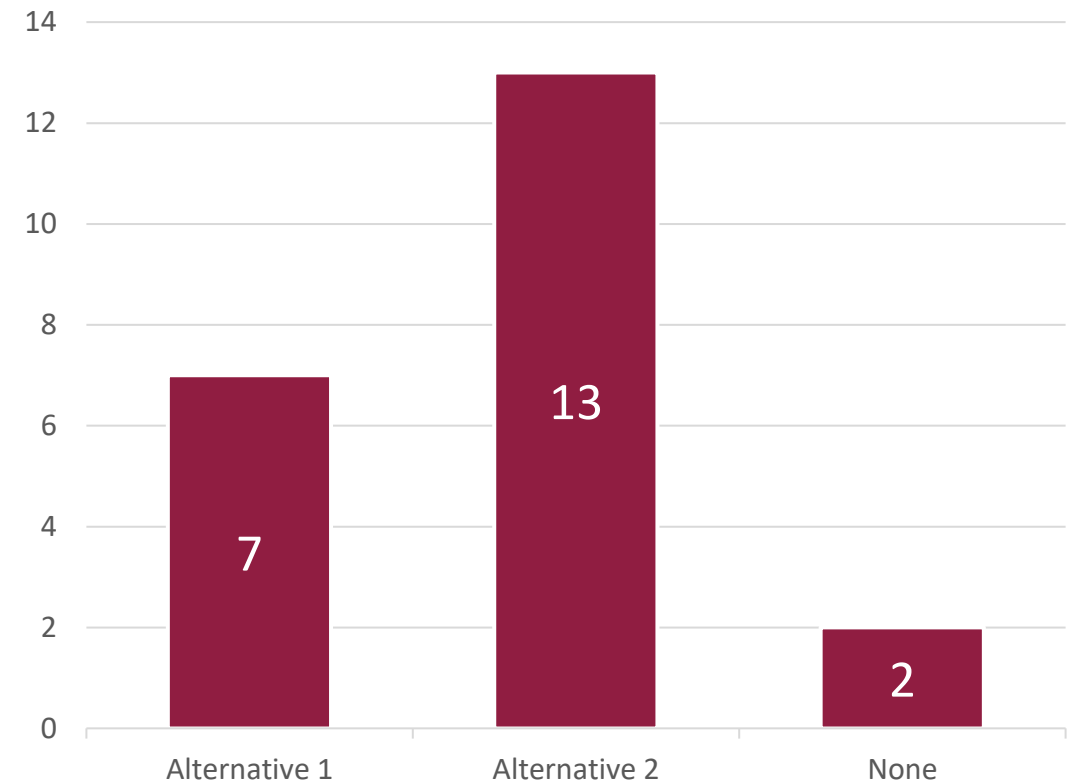


Reporting Entity and Control (1)

Do you agree with the description?

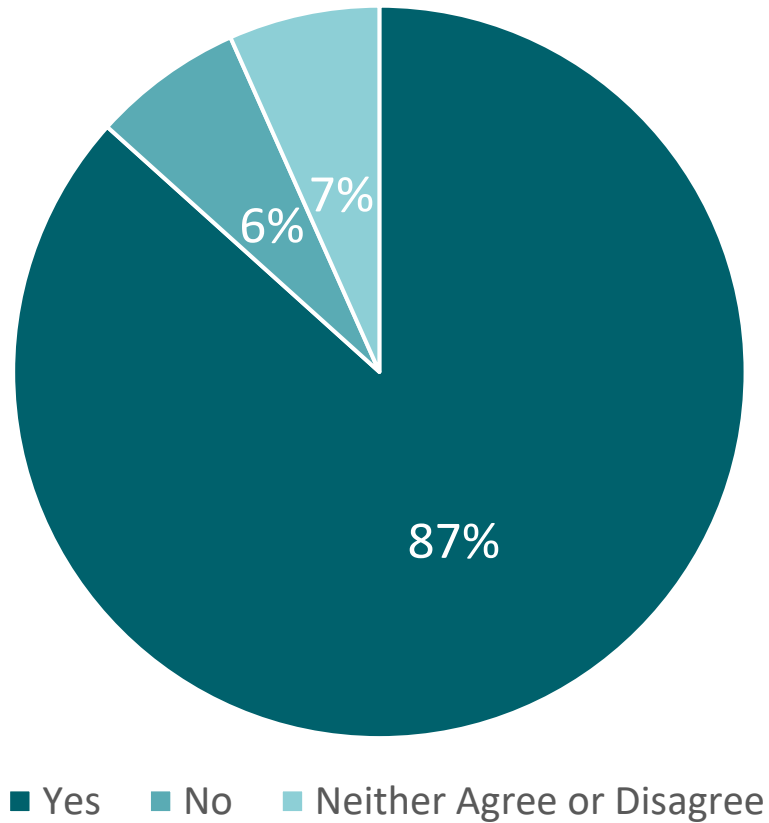


Your preference?

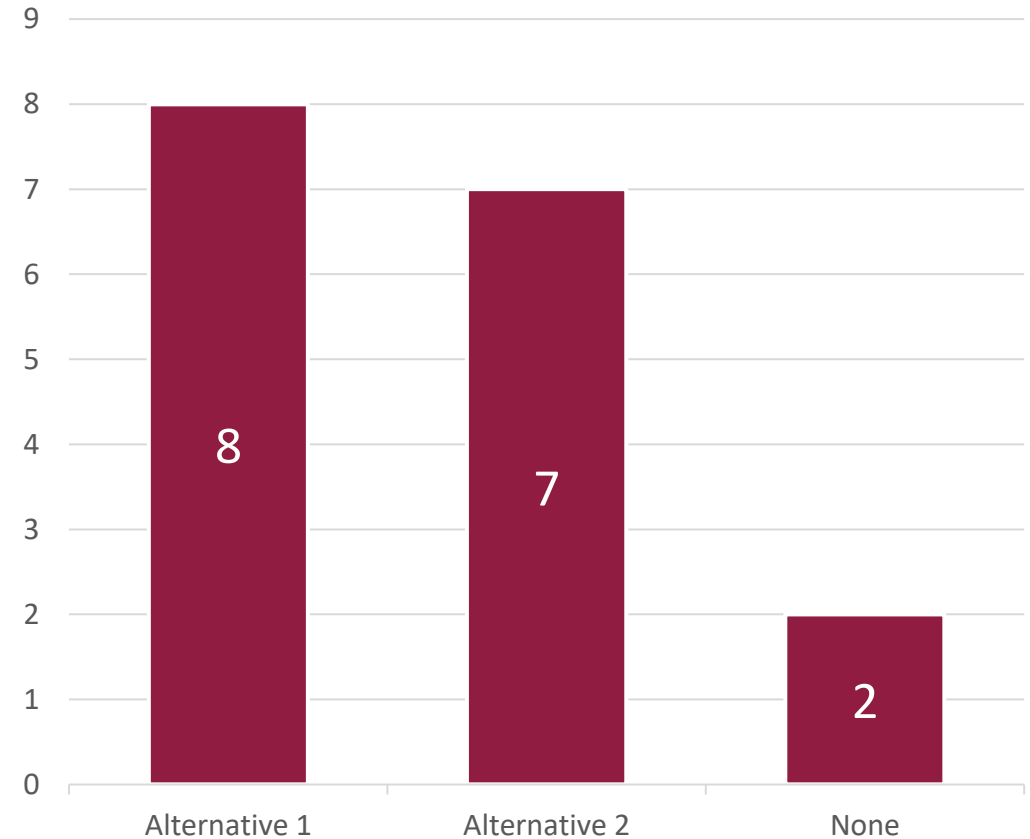


NPOs Acting on Behalf of Other Entities (2)

Do you agree with the description?

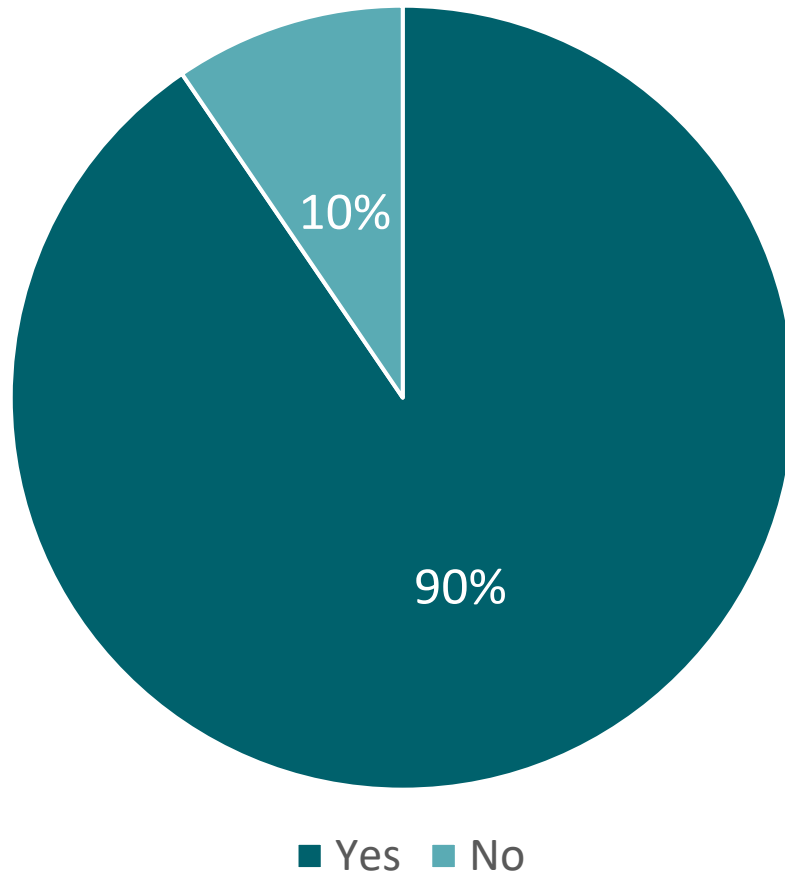


Your preference?

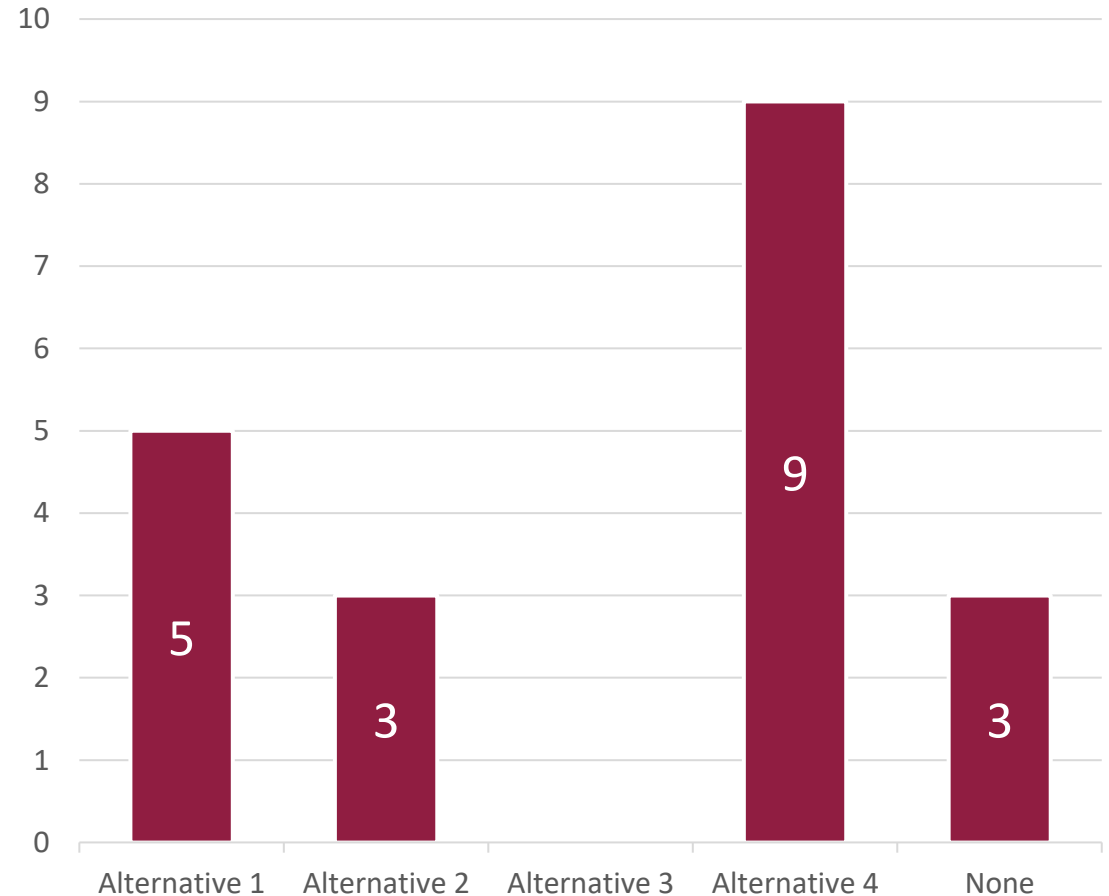


Non-Exchange Revenue (3)

Do you agree with the description?

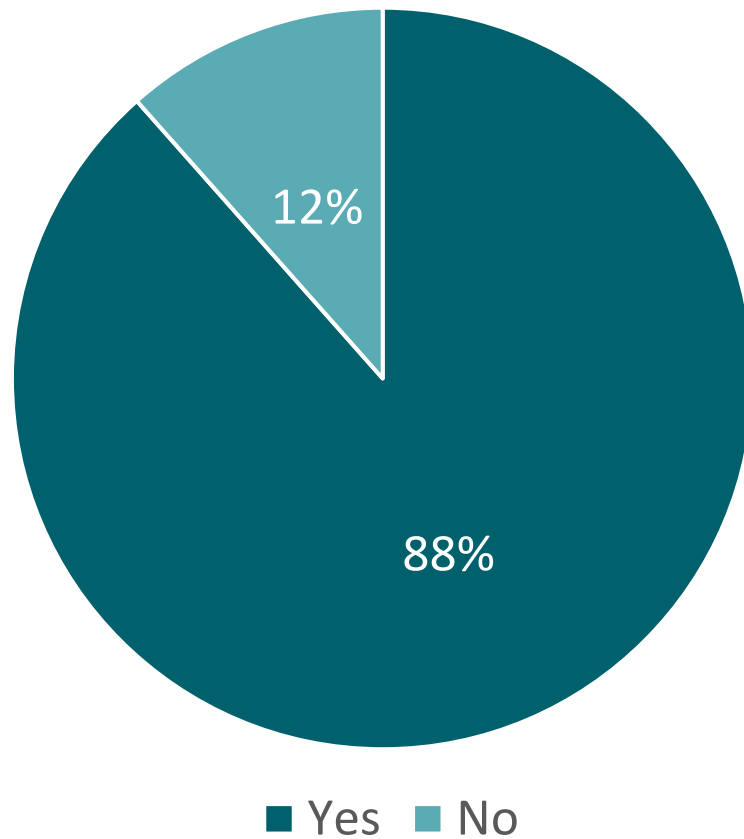


Your preference?

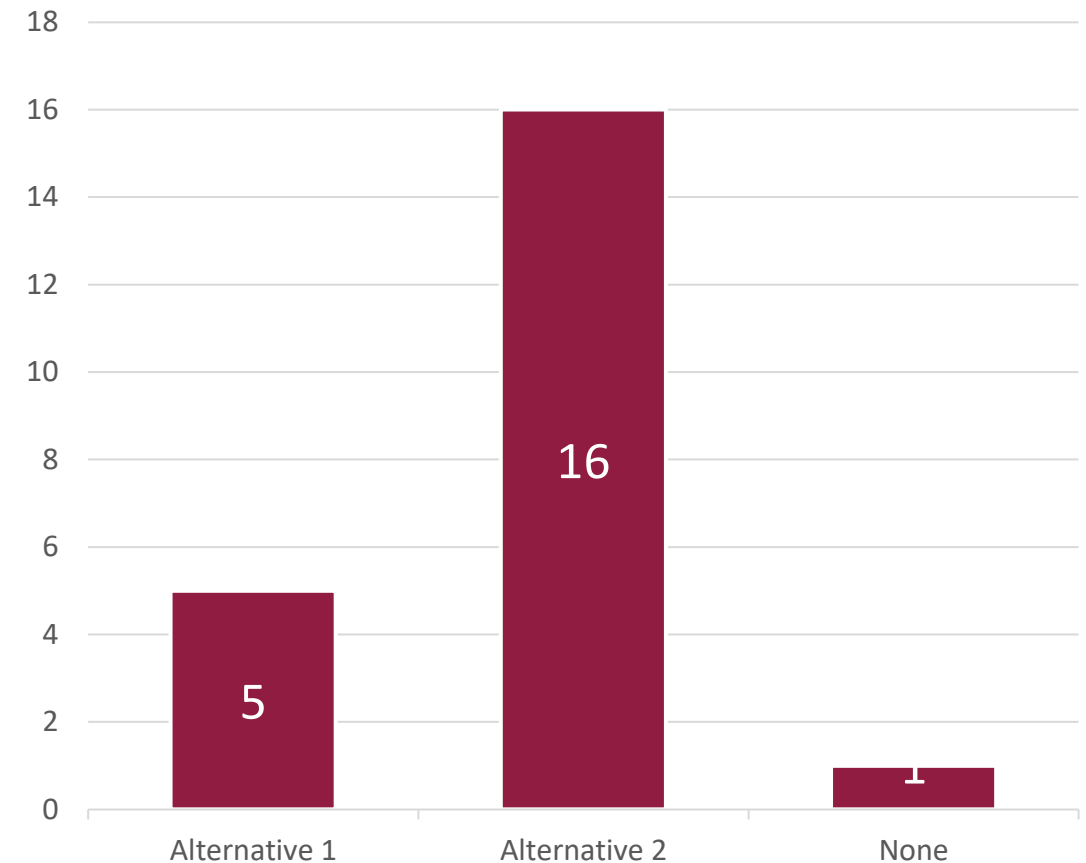


Grant Expenses (4)

Do you agree with the description?



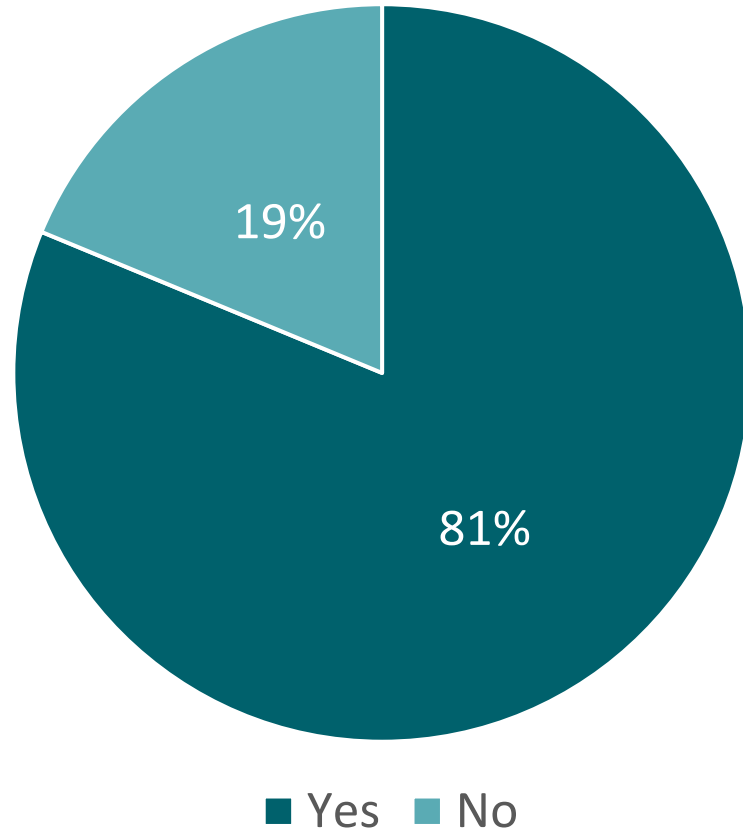
Your preference?



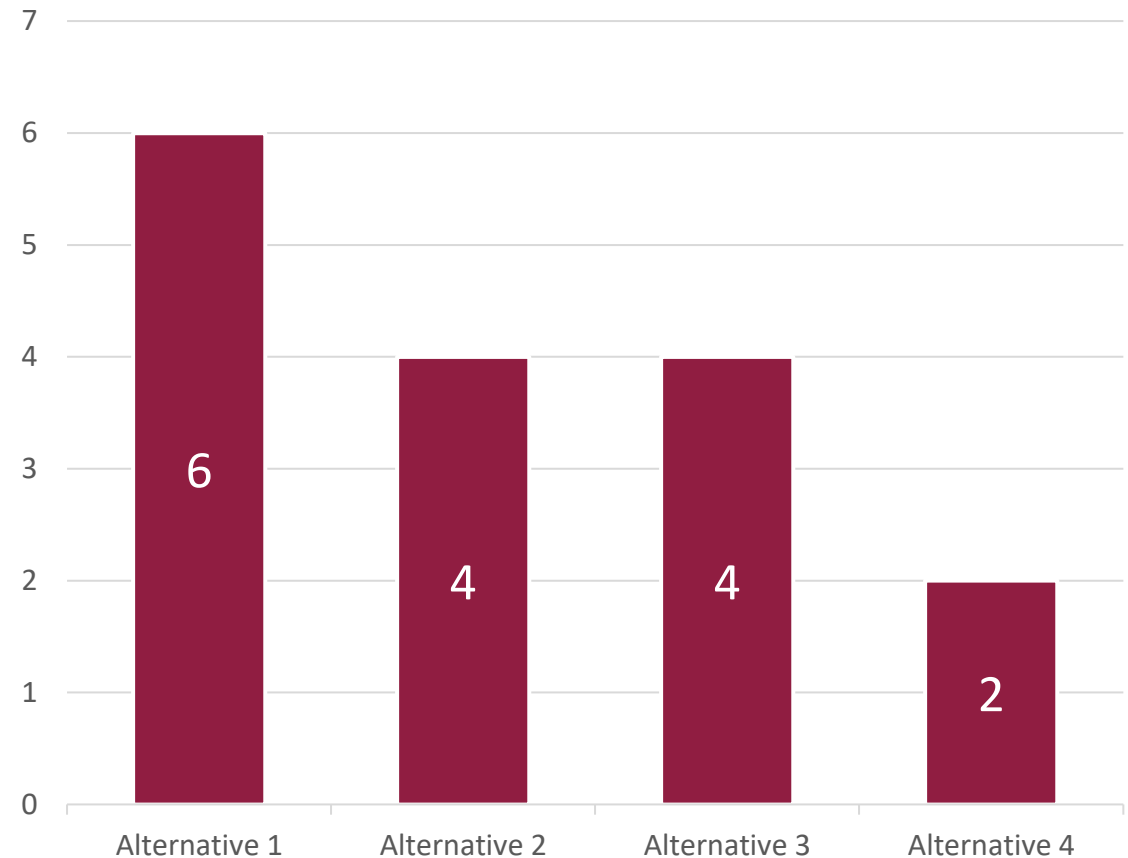


Measurement of Non-Financial Assets for Social Benefit (5)

Do you agree with the description?



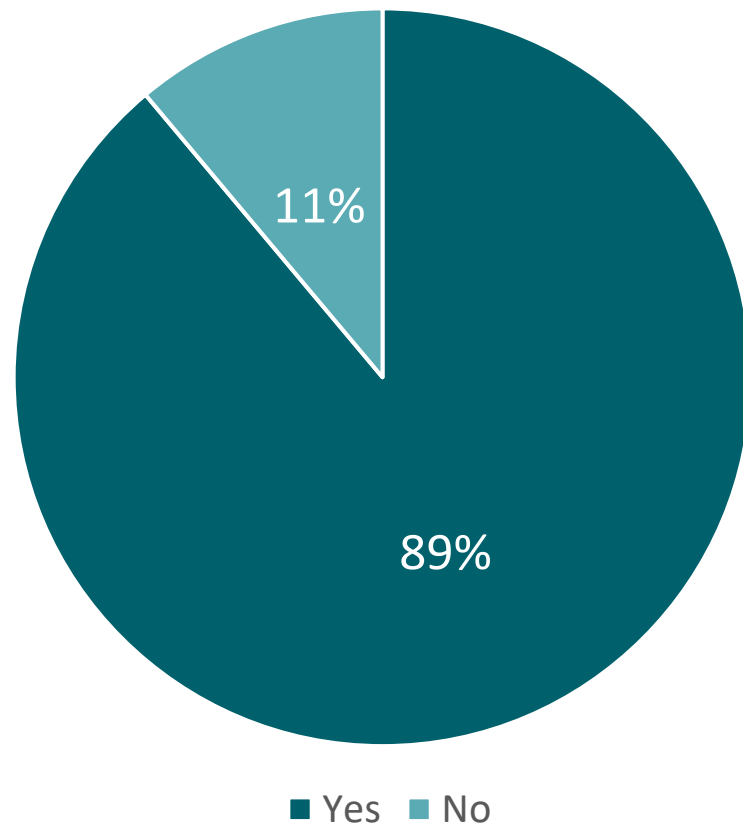
Your preference?.



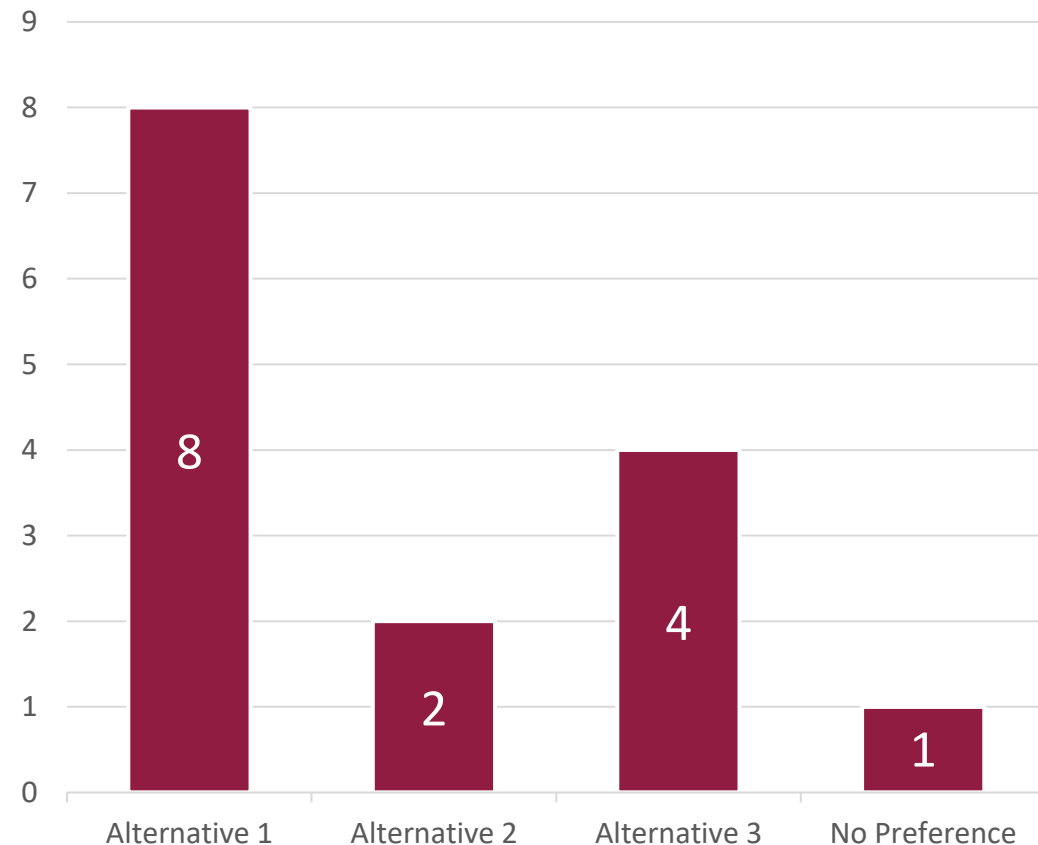


Inventory Held for Use or Distribution (6)

Do you agree with the description?

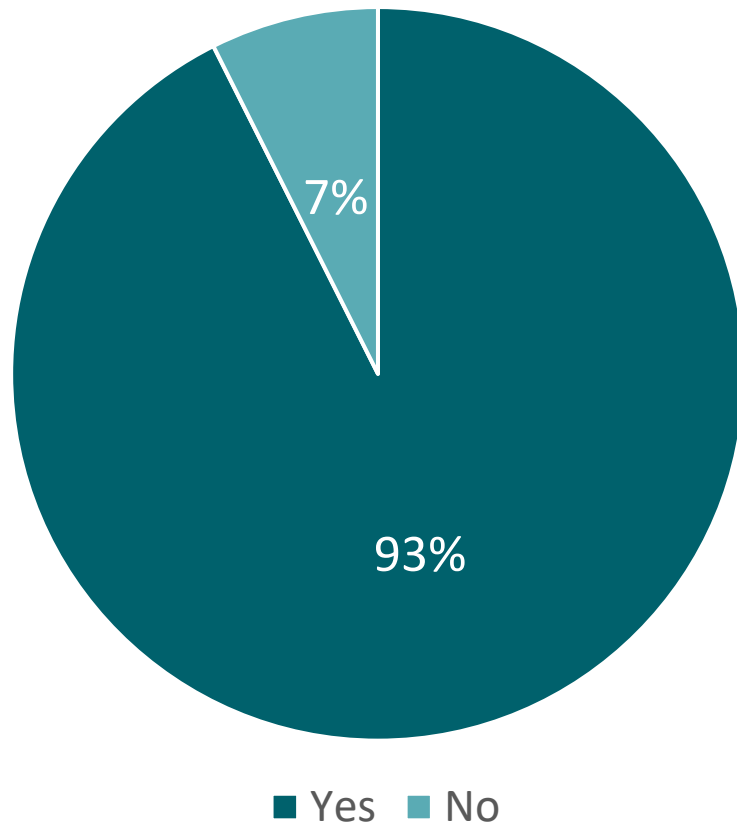


Your preference?

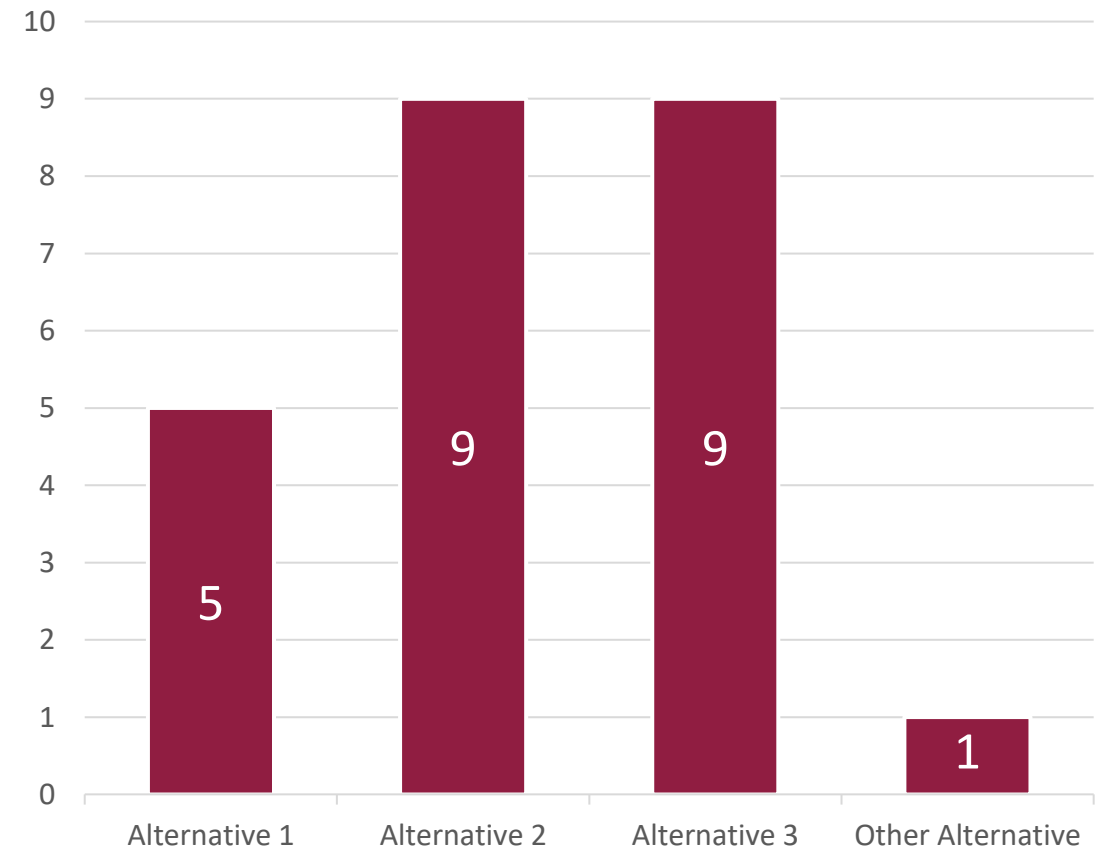


Presentation of Financial Statements (7)

Do you agree with the description?



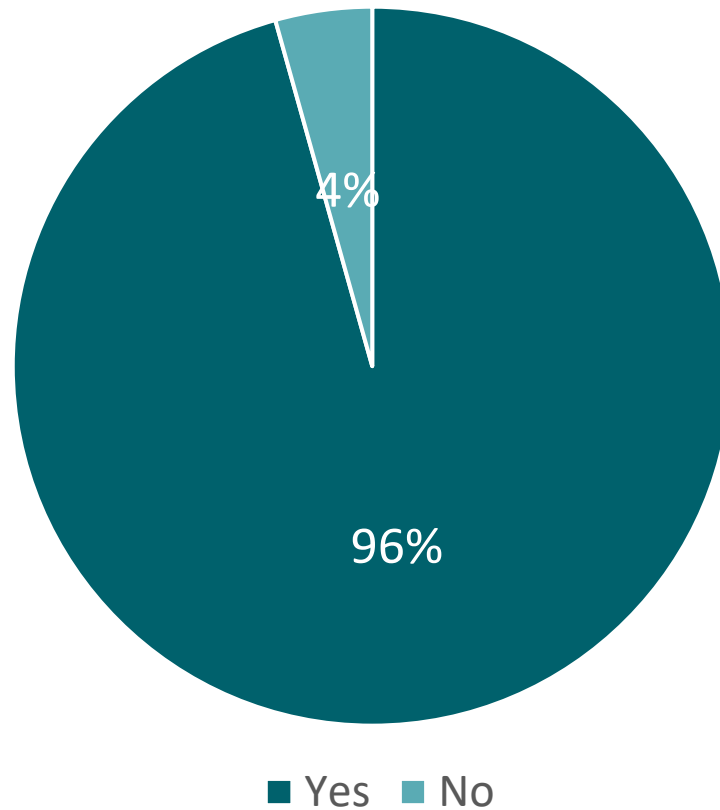
Your preference?



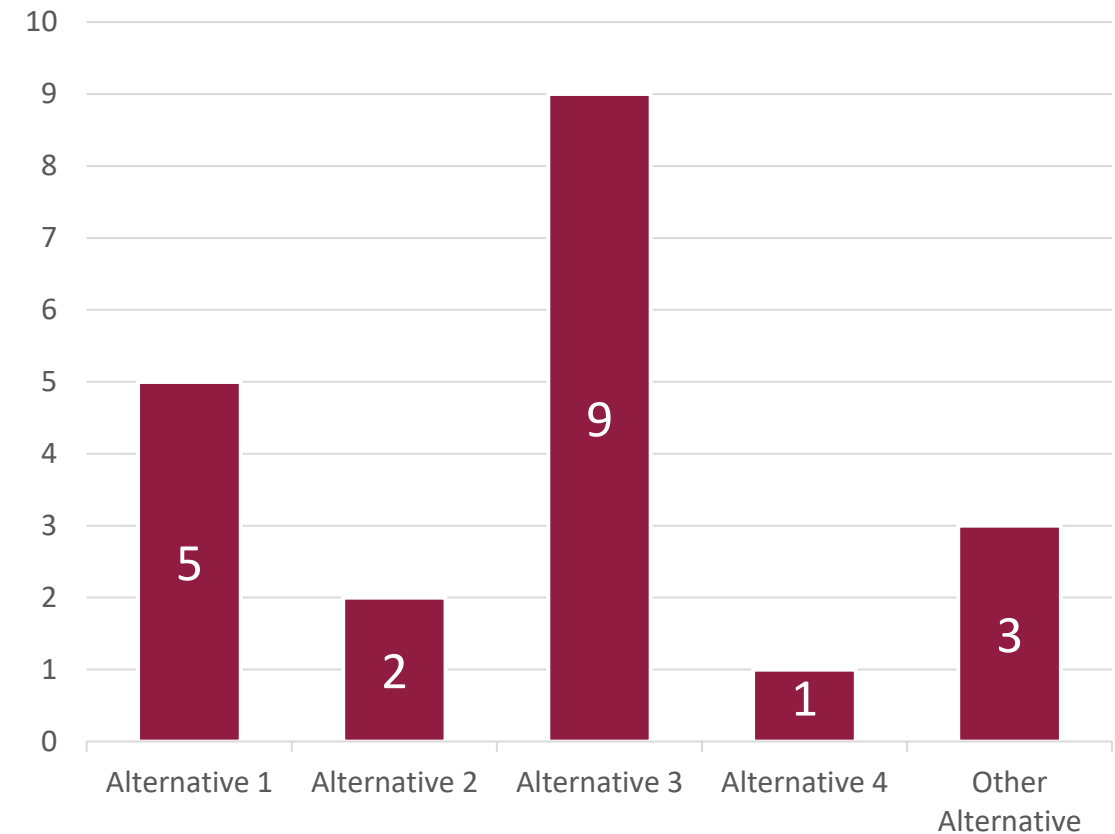


Classification of Expenses (8)

Do you agree with the description?

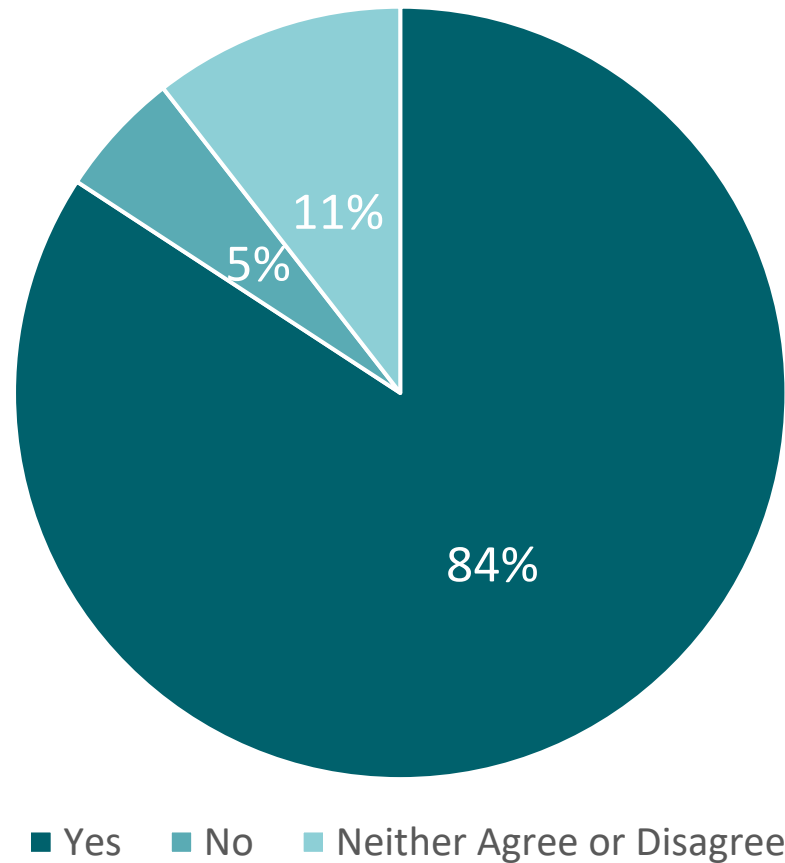


Your preference?

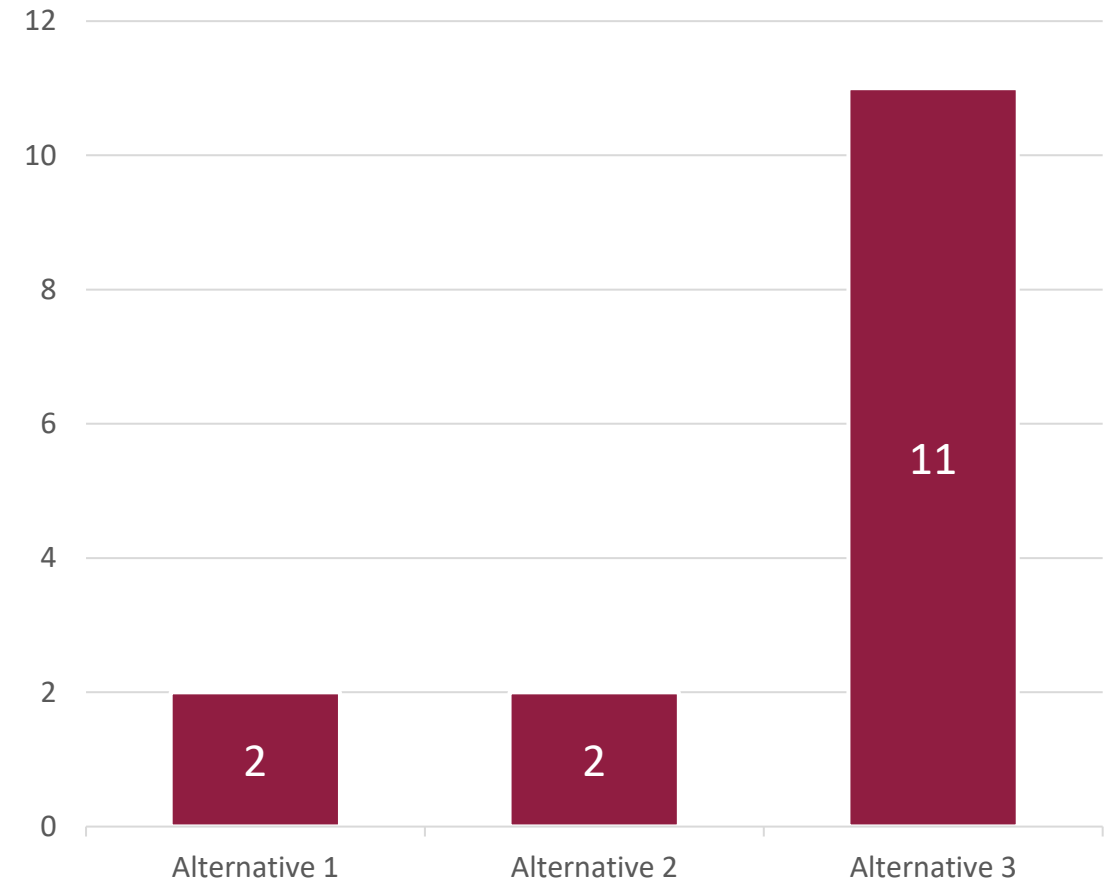


Fundraising Costs (9)

Do you agree with the description of issue?

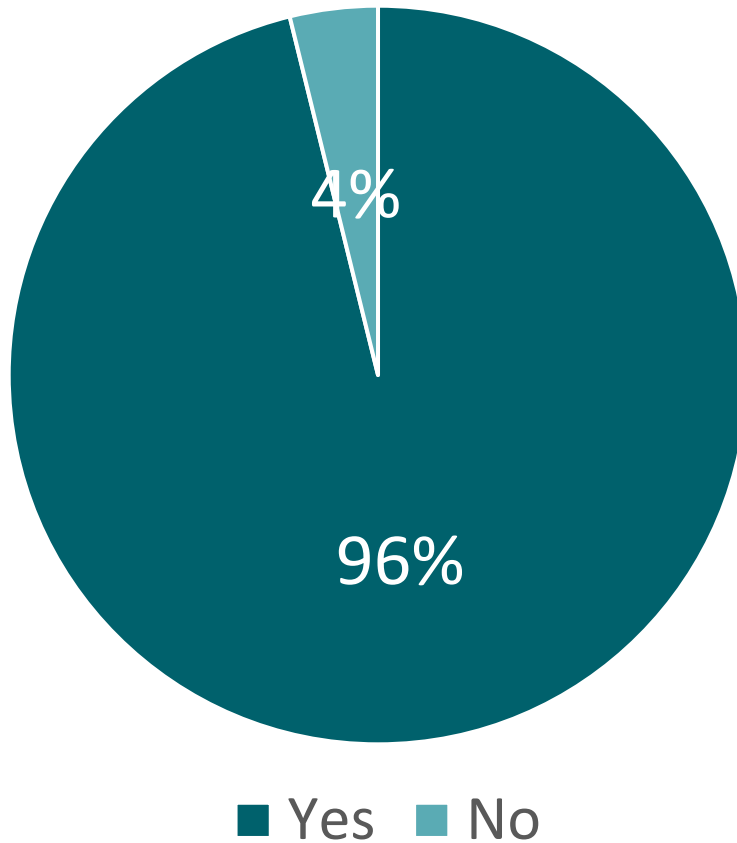


Your preference?

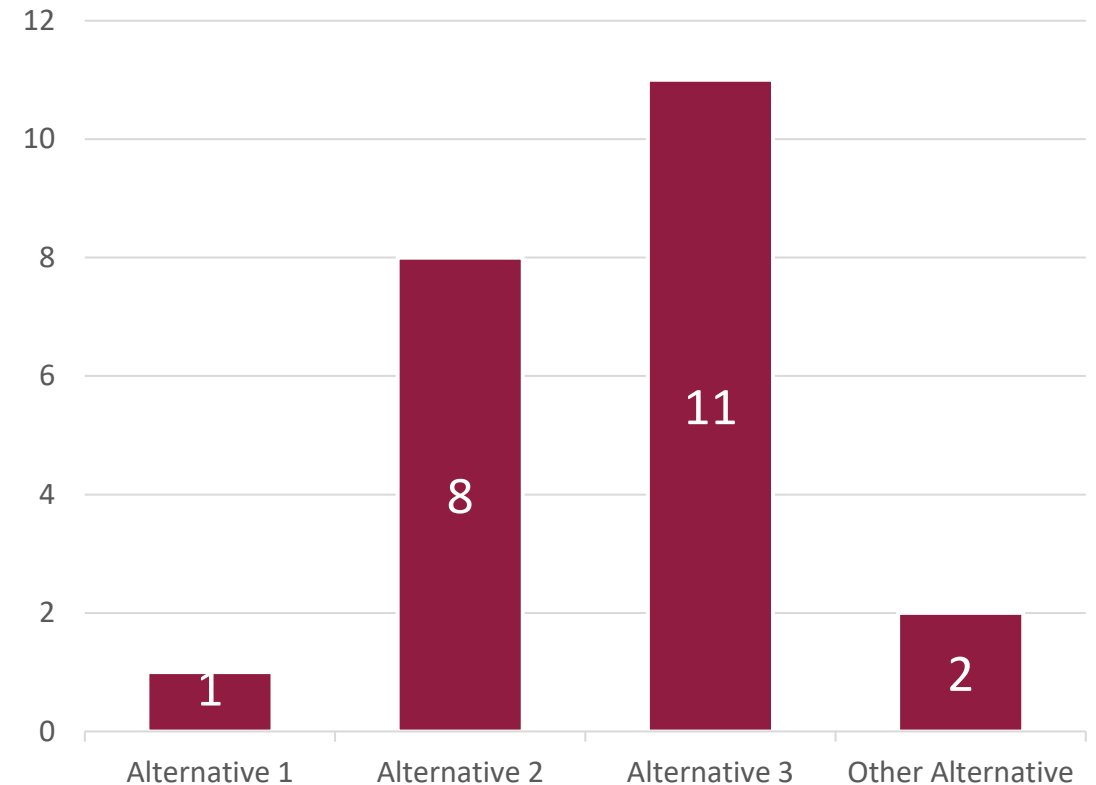


Narrative Reporting (10)

Do you agree with the description?



Please identify the alternative treatment that you favour for issue 10



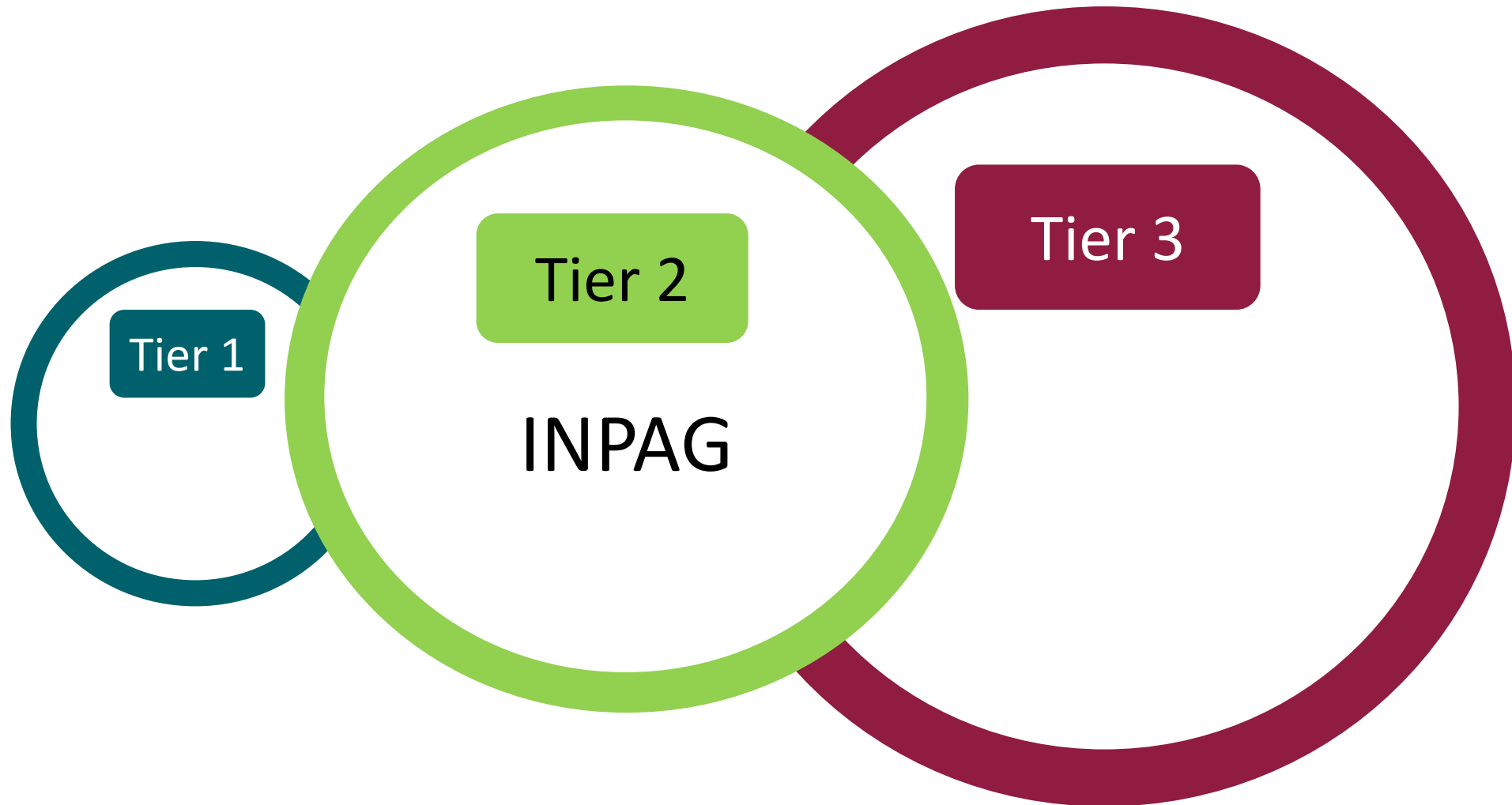
Guidance Name



Who is INPAG for?

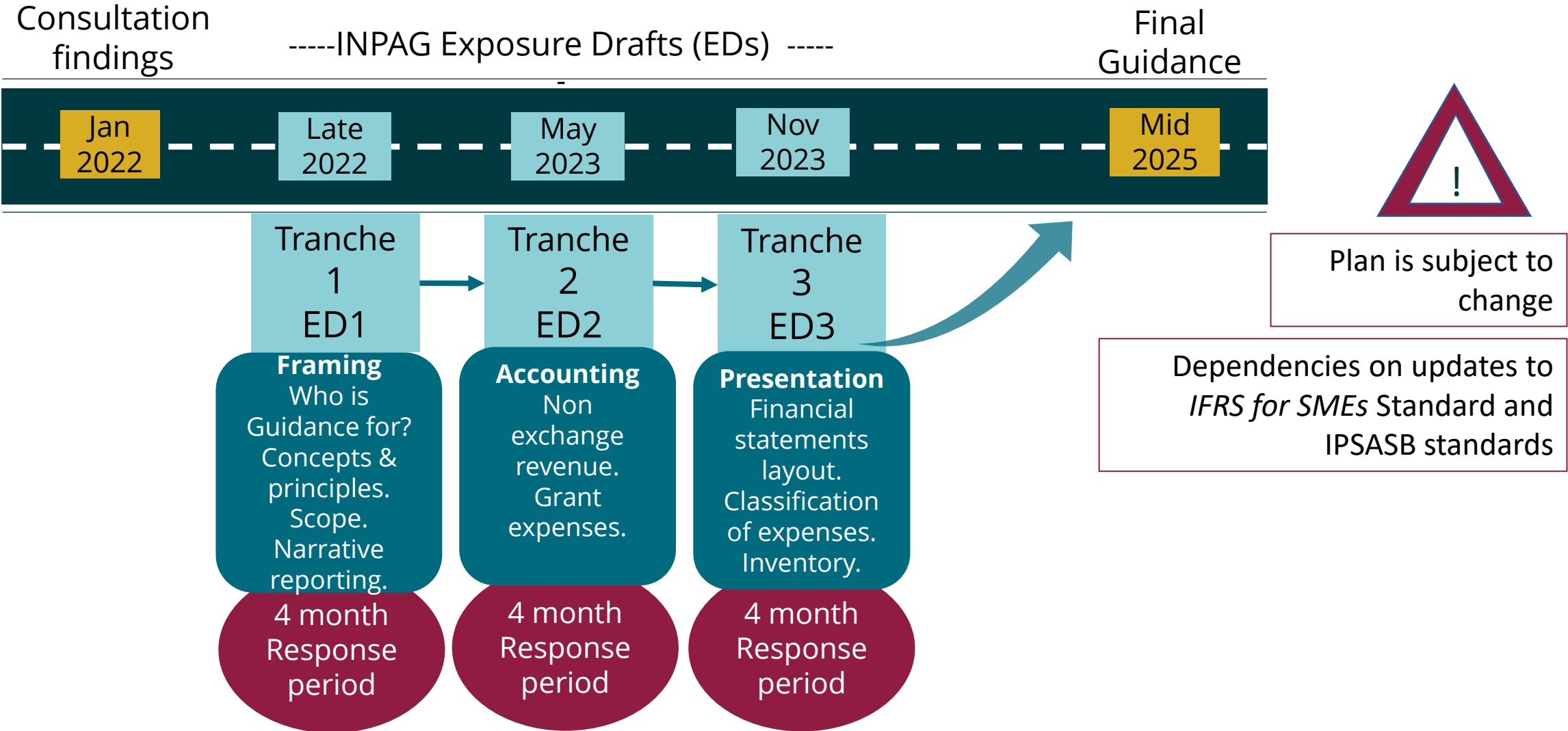


INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS



Roadmap for Exposure Drafts

The Development phase will be carried out in three tranches of work, each culminating in an Exposure Draft.



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Consultation Paper - Part 2 and Next steps



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Thoughts?
Comments?
Questions?

Questions &
Comments



Answers &
Reflections



Thank you!

www.ifr4npo.org
info@ifr4npo.org

